

South Puget Sound Community College

2015 Annual Financial Report

Fiscal Year Ended June 30, 2015





South Puget Sound

COMMUNITY COLLEGE

Fiscal 2015 Financial Report

Table of Contents

Trustees and Executive Officers	2
Independent Auditor’s Report on Financial Statements	3
Management’s Discussion and Analysis	14
College Statement of Net Position	22
Foundation Statement of Financial Position (Component Unit)	23
College Statement of Revenues, Expenses and Changes in Net Position	24
Foundation Statement of Activities (Component Unit)	25
College Statement of Cash Flows	26
Notes to the Financial Statements	28
Required Supplementary Information	46

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2011 Mottman Road SW
Olympia, WA 98512
360-596-5268

For information about enrollment, degrees awarded, or academic programs, contact:

Institutional Research
South Puget Sound Community College
2011 Mottman Road SW
Olympia, WA 98512
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or

Visit the home page at <https://spscc.edu>

Trustees and Executive Officers

BOARD OF TRUSTEES

Ms. Judith L. Hartman, Chair
Ms. Leonor R. Fuller, Vice Chair
Ms. Judith A. Blinn
Ms. Alberta Barbara Clarkson
Mr. Brian L. Vance
Dr. Timothy Stokes, ex-officio Secretary

EXECUTIVE TEAM

Dr. Timothy Stokes, President
Dr. Michelle Andreas, Vice President for Instruction
Mr. Albert Brown, Vice President for Administrative Services
Dr. David Pelkey, Vice President for Student Services
Ms. Lori Casile, Chief Information Officer
Mr. Kenneth Harden, Chief Human Resources Officer
Ms. Tanya Mote, Executive Director of the College Foundation
Ms. Kelly Green, Director of Public Relations and Events
Ms. Diana Toledo, Special Assistant to the President

Trustees and Officers list effective as of December 31, 2015

Independent Auditor's Report on Financial Statements



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report **South Puget Sound Community College**

For the period July 1, 2014 through June 30, 2015

Published
Report No. 1018772





**Office of the Washington State Auditor
Pat McCarthy**

Issue Date – (Issued by OS)

Board of Trustees
South Puget Sound Community College
Olympia, Washington

Report on Financial Statements

Please find attached our report on the South Puget Sound Community College's financial statements.

We are issuing this report in order to provide information on the College's financial condition.

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

TABLE OF CONTENTS

Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards	4
Independent Auditor's Report On Financial Statements	7
About The State Auditor's Office.....	11

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**South Puget Sound Community College
July 1, 2014 through June 30, 2015**

Board of Trustees
South Puget Sound Community College
Olympia, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component unit of the South Puget Sound Community College, Thurston County, Washington, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated March 8, 2017. As discussed in Note 15 to the financial statements, during the year ended June 30, 2015, the College implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*.

Our report includes a reference to other auditors who audited the financial statements of the South Puget Sound Community College Foundation, as described in our report on the College's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors. The financial statements of the Centralia College Foundation were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Centralia College Foundation. The financial statements of South Puget Sound Community College, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the College and its aggregate discretely presented component units. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2015, the changes in its financial position, or where applicable,

its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the College's financial statements are free from material misstatement, we performed tests of the College's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



Pat McCarthy
State Auditor
Olympia, WA

March 8, 2017

**INDEPENDENT AUDITOR'S REPORT ON
FINANCIAL STATEMENTS**

**South Puget Sound Community College
July 1, 2014 through June 30, 2015**

Board of Trustees
South Puget Sound Community College
Olympia, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the South Puget Sound Community College, Thurston County, Washington, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the South Puget Sound Community College Foundation, which represents 100 percent of the assets, net position and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the South Puget Sound Community College Foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the South Puget Sound Community College Foundation were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the South Puget Sound Community College, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1, the financial statements of the South Puget Sound Community College, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the College and its aggregate discretely presented component units. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2015, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 15 to the financial statements, in 2015, the College adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Schedules of the College's Share of Net Pension Liability, Schedules of Contributions and the Notes to Required Supplementary Information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the College's basic financial statements as a whole. The Trustees and Executive Officers is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2017 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not

to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large initial "P" and "M".

Pat McCarthy
State Auditor
Olympia, WA

March 8, 2017

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov

Management's Discussion and Analysis

South Puget Sound Community College

The following discussion and analysis provides an overview of the financial position and activities of South Puget Sound Community College (the College) for the fiscal year ended June 30, 2015 (FY 2015). This overview provides readers with an objective and easily readable analysis of the College's financial performance for the year, based on currently known facts and conditions. This discussion has been prepared by management and should be read in conjunction with the College's financial statements and accompanying note disclosures.

Reporting Entity

South Puget Sound Community College is one of thirty public community and technical college districts in the state of Washington, providing comprehensive, open-door academic programs, workforce education, basic skills and community service educational programs to approximately 6,000 students. The College confers associates degrees, certificates and high school diplomas. The College was established in 1962 and its primary purpose is to support student success in post-secondary academic transfer and workforce education that responds to the needs of the South Sound region.

The College's main campus is located in Olympia, Washington, a community of about 50,000 residents. The College has a smaller campus in the neighboring town of Lacey, Washington. The College is governed by a five member Board of Trustees appointed by the governor of the state with the consent of the state Senate. By statute, the Board of Trustees has full control of the College, except as otherwise provided by law.

Using the Financial Statements

The financial statements presented in this report encompass the College and its discretely presented component unit, the South Puget Sound Community College Foundation. The College's financial statements include the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. The Statement of Net Position provides information about the College as of June 30, 2015. The Statement of Revenue, Expenses and Changes in Net Position and the Statement of Cash flows provide information about operations and activities over the entire fiscal year. Together, these statements, along with the accompanying notes, provide a comprehensive way to assess the college's financial health.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net position are reported under the accrual basis of accounting where all of the current year's revenues and expenses are taken into account regardless of when cash is received or payments are made. Full accrual statements are intended to provide a view of the College's financial position similar to that presented by most private-sector companies. These financial statements are prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for external financial reporting for public colleges and universities. The full scope of the College's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

During 2015, the College adopted GASB Statement No. 68, as amended by GASB Statement No. 71. These statements require the College to record its proportionate share of net pension liabilities, deferred outflows and inflows by restating its 2014 net position, pension liabilities and deferral of resources as a change in accounting principle. For the purposes of this analysis, the restatement of the 2014 net position was made to conform to 2015 presentation. The change in accounting principle resulted in a reduction to unrestricted net position in the amount of \$5,329,636. This decrease resulted in the restatement of net position to a balance of \$139,248,976 for the year ending June 30, 2014.

Statement of Net Position

The Statement of Net Position provides information about the College's financial position, and presents the College's assets, liabilities, and net position at year-end and includes all assets and liabilities of the College. The College's financial position remained relatively stable during the fiscal year ended June 30, 2015. The decrease in net position is primarily attributable to the disposition of capital assets and the recording of the College's share of the State's net pension liability (a new requirement). A condensed comparison of the Statement of Net Position is as follows:

Condensed Statement of Net Position As of June 30th	FY 2015	FY 2014
Assets		
Current Assets	10,839,464	15,881,772
Capital Assets, net	137,127,940	135,546,249
Other Assets, non-current	0	107,584
Total Assets	\$ 147,967,404	\$ 151,535,605
Deferred Outflows	\$ 917,622	\$ 575,063
Liabilities		
Current Liabilities	4,977,583	3,100,826
Other Liabilities, non-current	12,267,840	9,760,866
Total Liabilities	\$ 17,245,423	\$ 12,861,692
Deferred Inflows	\$ 1,842,407	\$ 0
Net Position, as restated	\$ 129,797,196	\$ 139,248,976

Current assets consist primarily of cash, investments, various accounts receivables and inventories. The decrease of current assets in FY 2015 can be attributed to the College's cash investment in the remodel of the Lacey Campus.

Net capital assets increased by \$1,581,691 from FY 2014 to FY 2015. After taking into consideration current depreciation expense of \$3,624,704 combined with the disposal of certain assets, the increase is a result of the renovation of Lacey Campus Building One which is expected to be completed in FY 2016.

Deferred outflows of resources totaling \$917,622 are related to the net pension liability that was recorded on the College's financials this year.

Current liabilities include amounts payable to suppliers for goods and services, accrued payroll and related liabilities, the current portion of Certificate of Participation (COP) debt, deposits held for others and unearned revenue. Current liabilities can fluctuate from year to year depending on the timeliness of vendor invoices and resulting vendor payments, especially in the area of capital assets and improvements.

The increase in current liabilities from FY 2014 to FY 2015 is due mainly to fluctuations in amounts owed on vendor invoices at the end of the fiscal year.

Non-current liabilities primarily consist of the value of vacation and sick leave earned but not yet used by employees and the long-term portion of Certificates of Participation debt.

The College’s significant increase in non-current liabilities is the result of a new Certificate of Participation to fund part of the remodel of Lacey Campus – Building One project.

The College’s non-current liabilities also increased due to the implementation of GASB Statement No. 68, reflecting the College’s proportionate share of the net pension liability.

Deferred inflows of resources related to the College’s net pension liability totaled \$1,842,407. Deferred inflows or resources include the calculated difference between actual and projected investment earnings on the state’s pension plans.

Net position represents the value of the College’s assets and deferred outflows after liabilities and deferred inflows are deducted. The College is required by accounting standards to report its net position in four categories:

Net Investment in Capital Assets – The College’s total investment in property, plant, equipment, and infrastructure net of accumulated depreciation and outstanding debt obligations related to those capital assets. Changes in these balances are discussed above.

Restricted:

Nonexpendable – consists of funds in which a donor or external party has imposed the restriction that the corpus or principal is not available for expenditures but for investment purposes only. Historically, donors interested in establishing such funds to benefit the College or its students have chosen to do so through the Foundation. As a result, the college is not reporting any balance in this category.

Expendable – resources the College is legally or contractually obligated to spend in accordance with restrictions placed by donor and/or external parties who have placed time or purpose restrictions on the use of the asset. The primary expendable funds for the College would be Institutional Financial Aid funds required to be set aside from tuition revenue.

Unrestricted – Includes all other assets not subject to externally imposed restrictions, but which may be designated or obligated for specific purposes by the Board of Trustees or management. Prudent balances are maintained for use as working capital, as a reserve against emergencies and for other purposes, in accordance with policies established by the Board of Trustees.

As stated earlier in this section, the College’s net position was adjusted by \$5,329,636 to reflect the implementation of GASB Statement No. 68 to report the net pension liability and the offsetting adjustment to net position.

Net Position	FY 2015	FY 2014
As of June 30th		
Net investment in capital assets	\$131,076,311	\$133,781,249
Restricted		
Expendable (3.5% Institutional Financial Aid)	\$657,481	\$140,116
Unexpendable (description)	\$0	\$0
Unrestricted	(\$1,936,596)	\$10,657,247
Cumulative effect of change in accounting principle	\$0	(\$5,329,636)
Total Net Position	\$129,797,196	\$139,248,976

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position accounts for the College's changes in total net position during FY 2015. The objective of the statement is to present the revenues received, both operating and non-operating, and the expenses paid by the College, along with any other revenue, expenses, gains and losses of the College.

Generally, operating revenues are earned by the College in exchange for providing goods and services. Tuition, grants and contracts are included in this category. In contrast, non-operating revenues include monies the college receives from another government without directly giving equal value to that government in return. Accounting standards require that the College categorize state operating appropriations and Pell Grants as non-operating revenues.

Operating expenses are expenses incurred in the normal operation of the College, including depreciation on property and equipment assets. When operating revenues, excluding state appropriations and Pell Grants, are measured against operating expenses, the College shows an operating loss. The operating loss is reflective of the external funding necessary to keep tuition lower than the cost of the services provided.

A condensed comparison of the College's revenues, expense and changes in net position for the years ended June 30, 2015 and 2014 is presented below.

The net position as previously reported for FY 2014 was restated to reflect the change in accounting principle. The College has also adjusted the FY 2015 Beginning Net Position to correct the prior year's reporting of capitalized assets and depreciation which resulted in an overstatement of the Ending Net Position for FY 2014.

Ending Net Position, June 30, 2014	\$144,578,612
Restatement:	
Change in Accounting Principle	\$(5,329,636)
Prior Year Adjustments	<u>\$(4,900,194)</u>
Beginning Net Position, July 1, 2014	\$134,348,782

Revenues, Expenses and Changes in Net Position As of June 30th	FY 2015	FY 2014 (Prior to adjustments)
Operating Revenues	\$ 27,983,236	\$ 24,276,867
Operating Expenses	55,031,217	52,018,842
Net Operating Loss	(27,047,981)	(27,741,975)
Non-Operating Revenues and Expenses	18,790,738	21,956,799
Loss Before Other	(8,257,243)	(5,785,176)
Capital Appropriations and Contributions	3,705,657	7,506,725
Extraordinary/Special Items	0	(290,693)
Increase (Decrease) in Net Position	(4,551,586)	1,430,856
Net Position, Beginning of the Year	144,578,612	143,147,756
Cummulative effect of change in accounting principle	(5,329,636)	0
Prior period adjustment	(4,900,194)	0
Net Position, End of the Year	\$ 129,797,196	\$ 144,578,612

Revenues

Continuing a trend that began midway through fiscal year 2009, the College’s state operating appropriations decreased multiple times up through FY 2013. The state of Washington appropriates funds to the community college system as a whole. The State Board for Community and Technical Colleges (SBCTC) then allocates monies to each college. System-level appropriations hit their height in FY 2009 and as of FY 2013 have been reduced by almost 24%. In FY 2014 the Legislature reinstated a fraction of the previous cuts.

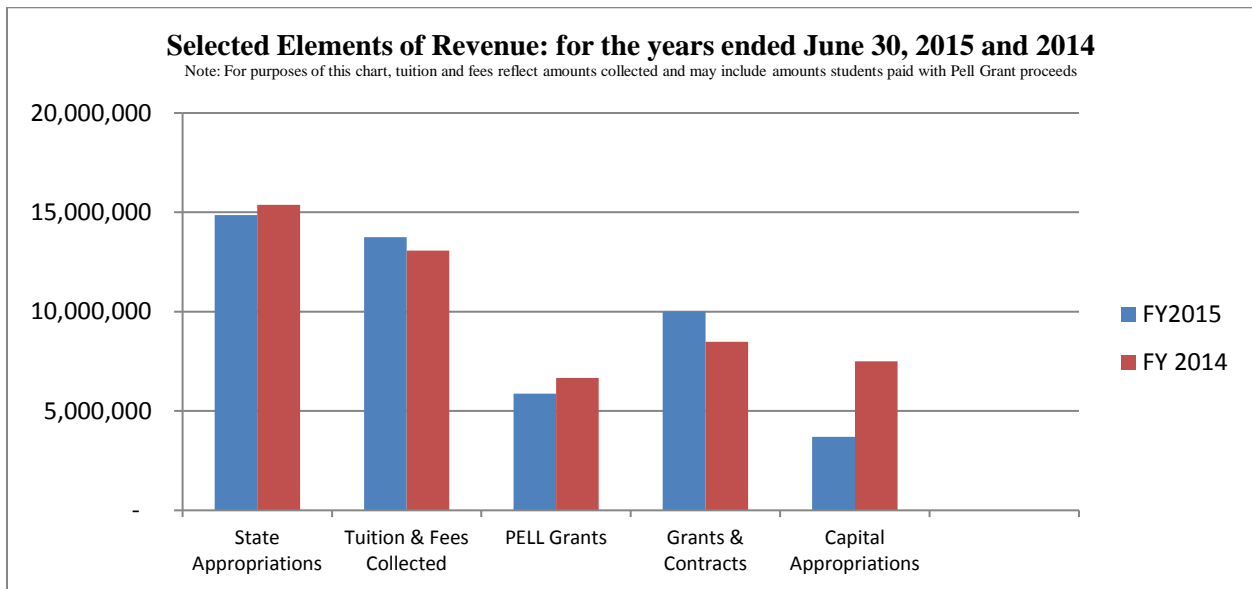
During the period of recession, the Legislature and SBCTC instituted increases in tuition rates to partially offset the reduction in state appropriations. State enrollments decreased slightly in FY 2015, but tuition and fees revenue increased due to a decrease in scholarship allowances.

Pell grant revenues generally follow enrollment trends. As the College’s enrollment softened during FY 2015 so did the College’s Pell Grant revenue. In FY 2015, grant and contract revenues increased by \$1,519,918 when compared with FY 2014. Part of the contract revenue increase is attributable to the Running Start program, whereby the College contracts with local high schools to enroll their Running Start students who earn both high school and college credit for the College courses. The Running Start program saw a 22% increase in enrollment in FY2015.

The College receives capital spending authority on a biennial basis and may carry unexpended amounts forward into one or two future biennia, depending on the original purpose of the funding. In accordance with accounting standards, the amount shown as capital appropriation revenue on the financial statement is the amount expended in the current year. Expenditures from capital project funds that do not meet accounting standards for capitalization are reported as operating expenses. Those expenditures that meet the capitalization standard are not shown as expense in the current period and are instead recognized as depreciation expense over the expected useful lifetime of the asset.

On the following graph, the FY 2014 Tuition and Fees amount has been restated to reflect a FY 2015 change in statement reporting for Building Fee & Innovation Fund Remittance.

<i>FY 2014 Student Tuition and Fees</i>	<i>\$11,396,602</i>
<i>FY 2014 Building Fee & Innovation fund</i>	<i><u>1,681,654</u></i>
<i>Adjusted FY 2014 Student Tuition and Fees</i>	<i>\$13,078,256</i>



Expenses

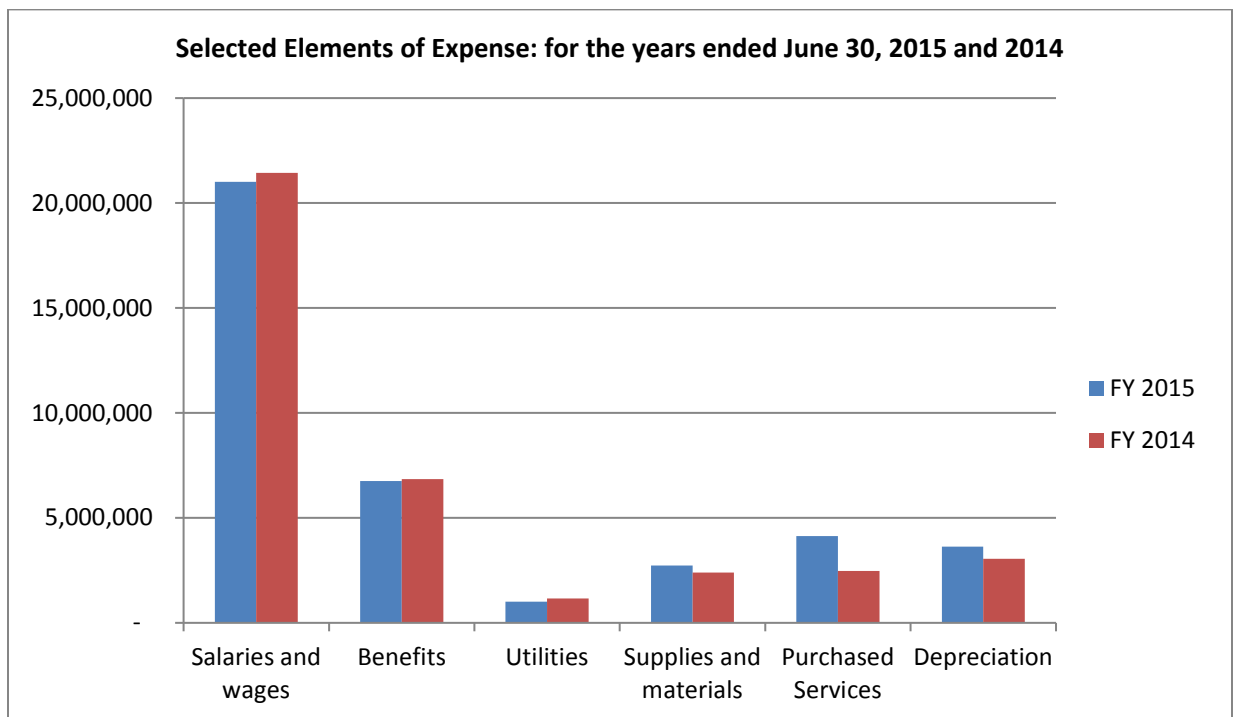
Faced with severe budget cuts between 2009 and 2013, the College has continuously sought opportunities to identify savings and efficiencies. Over time, the College decreased spending and services and was subject to various state spending freezes and employee salary reductions.

In FY 2015, salary and benefit costs decreased slightly over FY 2014

The College reduced utility expenses slightly in FY 2015 as a result of targeted efforts to manage utility usage which offset utility rate increases. Supplies, materials and purchased services are higher in FY 2015, primarily as a result of increased spending related to capital projects. Certain capital project costs do not meet accounting criteria for capitalization as part of a fixed asset and are instead recognized as supplies and materials or purchased services costs. These fluctuations are to be expected. Depreciation expense is also primarily driven by capital activity, with the annual depreciation expense showing a significant increase in any year when a new building is placed in service.

Comparison of Selected Operating Expenses by Function

The chart below shows the amount, in dollars, for selected functional areas of operating expenses for FY 2015 and FY 2014.



Capital Assets and Long-Term Debt Activities

The community and technical college system submits a single prioritized request to the Office of Financial Management and the Legislature for appropriated capital funds, which includes major projects, minor projects, repairs, emergency funds, alternative financing and major leases. The primary funding source for college capital projects is state general obligation bonds. In recent years, declining state revenues significantly reduced the state's debt capacity and are expected to continue to impact the number of new projects that can be financed.

At June 30, 2015, the College had invested \$137,127,940 in capital assets, net of accumulated depreciation. This represents an increase of \$6,481,885 from last year, as shown in the table below.

For Capital Assets comparison - the FY 2014 Asset Types has been restated to reflect a FY 2015 prior year reconciling adjustment.

<i>FY 2014 Capital Assets, net of depreciation</i>	<i>\$135,546,249</i>
<i>FY 2015 capital assets prior period adjustment</i>	<i>(4,900,194)</i>
<i>Adjusted FY 2014 Capital Assets, net of depreciation</i>	<i>\$130,646,055</i>

Asset Type	June 30, 2015	June 30, 2014 (restated)	Change
Land	\$9,524,796	\$9,524,796	\$0
Construction in Progress	\$9,652,235	\$26,444,746	-\$16,792,511
Buildings, net	\$112,813,126	\$90,778,724	\$22,034,402
Other Improvements and Infrastructure, net	\$3,077,989	\$1,949,521	\$1,128,468
Equipment, net	\$1,878,461	\$1,708,661	\$169,800
Library Resources, net	\$181,333	\$239,607	-\$58,274
Total Capital Assets, Net	\$137,127,940	\$130,646,055	\$6,481,885

The increase in net capital assets can be attributed to a current renovation project, ongoing acquisition of equipment, offset by asset depreciation. The renovation project, Lacey Campus – Building One, is scheduled to be completed in FY 2016. Additional information on capital assets can be found in Note 5 of the Notes to the Financial Statements.

At June 30, 2015, the College had \$6,055,000 in outstanding debt. The College entered into a \$5,000,000 Certificate of Participation (COP) for renovation of Lacey Campus – Building One during FY 2015.

Debt	June 30, 2015	June 30, 2014
Certificates of Participation	\$6,055,000	\$1,765,000
Capital Leases	\$0	\$0
Total	\$6,055,000	\$1,765,000

Additional information of notes payable, long term debt and debt service schedules can be found in Notes 12, 13, and 14 of the Notes to the Financial Statements.

Economic Factors That May Affect the Future

Following a trend that began in FY 2009, the College’s state operating appropriations continued to decrease through FY 2013. More recently, when creating the 2013 – 2015 biennial budget, the state Legislature re-invested in community and technical colleges. They continued this trend with a supplemental budget that included community colleges as a key partner in an investment in aerospace training. As a result, the net reduction of community college funding between FY 2009 through the end of FY 2015 will have been a little over 15 percent. These investments in community colleges allowed the Legislature to keep FY 2014 tuition flat for resident and non-resident students.

Beginning FY 2016, the Legislature enacted the Affordable Education Act, which reduced tuition by 5% at the College. This will further reduce the amount of tuition collected by the College. The Legislature did however provide a portion of tuition backfill to offset this loss.

In FY 2017, the State Board for Community and Technical College's has elected to move to a new allocation model, changing how the state allocated funds are distributed to each college. The new model will be based on performance in several key indicators from general enrollments to enrollments in high cost programs, as well as student completion and achievement points. It's unclear how much opportunity there may be for additional investments in community and technical colleges in the next few years, as state budget writers continue to grapple with court-mandated basic education obligations, therefore this new allocation model may be the only significant change that could affect the College's state allocation funding.

College Statement of Net Position

South Puget Sound Community College
Statement of Net Position
June 30, 2015

Assets

Current assets

Cash and cash equivalents	7,049,937
Accounts Receivable	3,089,813
Inventories	502,838
Prepaid Expenses	196,876
Total current assets	10,839,464

Non-Current Assets

Capital assets, net of depreciation	137,127,940
Total non-current assets	137,127,940
Total assets	147,967,404

Deferred Outflows of Resources

Deferred outflows of resources related to pensions	917,622
Total deferred outflows of resources	917,622

Liabilities

Current Liabilities

Accounts Payable	1,844,775
Accrued Liabilities	1,426,285
Compensated absences	808
Deposits Payable	11,579
Unearned Revenue	1,264,136
Leases and Certificates of Participation Payable	430,000
Total current liabilities	4,977,583

Noncurrent Liabilities

Compensated Absences	2,105,010
Pension Liability	4,537,830
Long-term liabilities	5,625,000
Total non-current liabilities	12,267,840
Total liabilities	17,245,423

Deferred Inflows of Resources

Deferred inflows of resources related to pensions	1,842,407
Total deferred inflows of resources	1,842,407

Net Position

Net Investment in Capital Assets	131,076,311
Restricted for:	
Institutional Financial Aid	657,481
Unrestricted	(1,936,597)
Total Net Position	129,797,196

Total Liabilities, deferred inflow, and Net Position	148,885,026
Total assets & deferred outflow	148,885,026

The notes to the financial statements are an integral part of this statement

Foundation Statement of Financial Position

South Puget Sound Community College Foundation (Component Unit)
Statement of Financial Position
December 31, 2014

ASSETS

Cash and cash equivalents	\$ 1,054,652
Certificates of deposit	-
Investments	6,085,465
Promises to give, net	63,492
Prepaid expenses	1,995
Equipment, net of accumulated depreciation	<u>7,000</u>
 Total assets	 <u>\$ 7,212,604</u>

LIABILITIES AND NET ASSETS

Liabilities	
Accounts Payable	\$ 62,163
Scholarships and grants payable	<u>202,815</u>
 Total liabilities	 264,978
 Net Assets	
Unrestricted	1,350,075
Board Designated - endowed	<u>90,000</u>
Total unrestricted	1,440,075
Temporarily restricted	1,800,286
Permanently restricted	<u>3,707,265</u>
 Total net assets	 <u>6,947,626</u>
 Total liabilities and net assets	 <u>\$ 7,212,604</u>

College Statement of Revenues, Expenditures and Changes in Net Position

South Puget Sound Community College
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2015

Operating Revenues

Student tuition and fees, net	13,753,555
Auxiliary enterprise sales	1,496,017
State and local grants and contracts	9,772,483
Federal grants and contracts	234,864
Other operating revenues	2,726,317
Interest on loans to students	-
Total operating revenue	27,983,236

Operating Expenses

Operating Expenses	7,015,239
Salaries and wages	21,003,273
Benefits	6,757,523
Scholarships and fellowships	8,764,592
Supplies and materials	2,731,247
Depreciation	3,624,704
Purchased services	4,130,779
Utilities	1,003,860
Total operating expenses	55,031,217

Operating income (loss) (27,047,981)

Non-Operating Revenues (Expenses)

State appropriations	14,864,202
Federal Pell grant revenue	5,881,407
Investment income, gains and losses	4,313
Building fee remittance	(1,373,778)
Innovation fund remittance	(350,639)
Interest on indebtedness	(234,767)
Net non-operating revenues (expenses)	18,790,738

Income before capital contributions (8,257,243)

Capital appropriations 3,705,657

Increase (Decrease) in net position (4,551,586)

Net Position

Net position, beginning of year	144,578,612
Cumulative effect of change in accounting principle (Note 1)	(5,329,636)
Prior period adjustment (Fixed Assets)	(4,900,194)
Adjusted Net position, beginning of year	134,348,781
Net position, end of year	129,797,196

The notes to the financial statements are an integral part of this statement

Foundation Statement of Activities

South Puget Sound Community College Foundation (Component Unit)
Statement of Activities
Year Ended December 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<i>Revenues, Gains & Other Support</i>				
Contributions				
Individuals	\$ 95,866	\$ 363,935	\$ 131,687	\$ 591,488
In-kind	360,850	-	-	360,850
Dividend and interest income	60,229	293,311	-	353,540
Unrealized and realized loss on investments	(23,945)	(111,687)	(177)	(135,809)
Special events income	219,273	-	-	219,273
Net assets released from restrictions	524,597	(527,997)	3,400	0
	<u>1,236,870</u>	<u>17,562</u>	<u>134,910</u>	<u>1,389,342</u>
 <i>Expenses</i>				
Scholarships and grants	427,609	-	-	427,609
Other college support	81,834	-	-	81,834
Management and general	208,716	-	-	208,716
Fund-raising	138,439	-	-	138,439
In-kind services and occupancy	360,850	-	-	360,850
	<u>1,217,448</u>	<u>-</u>	<u>-</u>	<u>1,217,448</u>
 Change in net assets	 19,422	 17,562	 134,910	 171,894
 <i>Net Assets</i>				
Beginning of year	<u>1,420,653</u>	<u>1,782,724</u>	<u>3,572,355</u>	<u>6,775,732</u>
End of year	<u>\$ 1,440,075</u>	<u>\$ 1,800,286</u>	<u>\$ 3,707,265</u>	<u>\$ 6,947,626</u>

College Statement of Cash Flows

South Puget Sound Community College
Statement of Cash Flows
For the Year Ended June 30, 2015

Cash flow from operating activities	
Student tuition and fees	13,793,910
Grants and contracts	9,741,096
Payments to vendors	(4,805,193)
Payments for utilities	(1,324,272)
Payments to employees	(21,264,791)
Payments for benefits	(6,628,061)
Auxiliary enterprise sales	1,532,953
Payments for scholarships and fellowships	(8,764,592)
Other receipts (payments)	(5,314,347)
Net cash used by operating activities	<u>(23,033,297)</u>
Cash flow from noncapital financing activities	
State appropriations	15,676,765
Pell grants	5,881,407
Building fee remittance	(1,362,289)
Innovation fund remittance	(347,900)
Net cash provided by noncapital financing activities	<u>19,847,983</u>
Cash flow from capital and related financing activities	
Proceeds of capital debt	5,001,150
Capital appropriations	2,360,458
Purchases of capital assets	(9,932,702)
Principal paid on capital debt	(410,000)
Interest paid	(234,767)
Net cash used by capital and related financing activities	<u>(3,215,861)</u>
Cash flow from investing activities	
Income of investments	<u>4,313</u>
Net cash provided by investing activities	<u>4,313</u>
Decrease in cash and cash equivalents	(6,396,862)
Cash and cash equivalents at the beginning of the year	<u>13,446,799</u>
Cash and cash equivalents at the end of the year	<u><u>7,049,937</u></u>

The notes to the financial statements are an integral part of this statement

Reconciliation of Operating Loss to Net Cash used by Operating Activities

Operating Loss (27,047,981)

Adjustments to reconcile net loss to net cash used by operating activities

Depreciation expense 3,624,704

Changes in assets and liabilities

Receivables , net (1,802,540)

Inventories 143,295

Other assets 272,159

Accounts payable 1,240,599

Accrued liabilities 338,649

Unearned revenue 175,880

Compensated absences (251,157)

Pension liability adjustment expense 132,979

Deposits payable 0

Loans to students and employees 140,116

Net cash used by operating activities (23,033,297)

Non cash investing, capital, and financing activities

Capital financing - certificates of participation 4,700,000

The notes to the financial statements are an integral part of this statement

Notes to the Financial Statements

June 30, 2015

These notes form an integral part of the financial statements.

1. Summary of Significant Accounting Policies

Financial Reporting Entity

South Puget Sound Community College (the College) is a comprehensive community college offering open-door academic programs, workforce education, basic skills, and community services. The College confers associates degrees, certificates and high school diplomas. It is governed by a five-member Board of Trustees appointed by the Governor and confirmed by the state Senate.

The College is an agency of the State of Washington. The financial activity of the college is included in the State's Comprehensive Annual Financial Report.

The South Puget Sound Community College Foundation (the Foundation) is a separate but affiliated non-profit entity, incorporated under Washington law in 1982 and recognized as a tax exempt 501(c)(3) charity. The Foundation's charitable purpose is to enhance the educational quality and accessibility at the College by soliciting financial and in-kind support for the institution. Because the majority of the Foundation's income and resources are restricted by donors and may only be used for the benefit of the college or its students, the Foundation is considered a component unit based on the criteria contained in Governmental Accounting Standards Board (GASB) Statement Nos. 61, 39 and 14. A component unit is an entity which is legally separate from the College, but has the potential to provide significant financial benefits to the College or whose relationship with the College is such that excluding it would cause the College's financial statements to be misleading or incomplete.

The Foundation's financial statements are discretely presented in this report. Intra-entity transactions and balances between the College and the Foundation are not eliminated for financial statement presentation. During the fiscal year ended June 30, 2015, the Foundation distributed approximately \$509,586 to the College for restricted and unrestricted purposes. A copy of the Foundation's complete financial statements may be obtained from the Foundation's Administrative Offices at (360)596-5430.

Basis of Presentation

The financial statements have been prepared in accordance with GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments* as amended by GASB Statement No. 35, *Basic Financial Statements and Management Discussion and Analysis for Public Colleges and Universities*. For financial reporting purposes, the College is considered a special-purpose government engaged only in Business Type Activities (BTA). In accordance with BTA reporting, the College presents a Management's Discussion and Analysis; a Statement of Net Position; a Statement of Revenues, Expenses and Changes in Net Position; a Statement of Cash Flows; and Notes to the Financial Statements. The format provides a comprehensive, entity-wide perspective of the college's assets, deferred inflows, liabilities, deferred outflows, net position, revenues, expenses, changes in net position and cash flows.

New Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68), which covers accounting and financial reporting by state and local governments for pensions. This statement also supersedes GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as GASB Statement No. 50, *Pension Disclosures*. GASB 68 is effective for fiscal years beginning after June 15, 2014. The College has implemented this pronouncement during the 2015 fiscal year. Implementation of this pronouncement has required a

restatement of the prior year net position to reflect the net pension liability and the impact to net position.

The Governmental Accounting Standards Board (GASB) issued Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68, effective for the year ended June 30, 2015. This statement addresses an issue regarding application of the transition provisions of Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer to a defined benefit pension plan after the measurement date of the government’s beginning net pension liability. The effect of Statement No. 71 to the College is to require the deferral (Deferred Outflows) of pension contributions made subsequent to the measurement date and is addressed in Note 7 to the financial statements.

Cumulative effect of change in accounting principle

The college recorded a reduction to the beginning net position balance as a result of implementing GASB Statement No. 68 (as well as a Capital Assets adjustment). The net position has been restated as follows:

Net Position as previously reported at June 30, 2014		\$144,578,612
Prior period adjustment:		
Net Pension Liability	\$(5,904,699)	
Deferred Outflows	575,063	
Capital Assets (see Note 5)	<u>(4,900,194)</u>	
Total prior period adjustment		<u>(10,229,830)</u>
Net Position, as restated, July 1, 2014		\$134,348,782

Basis of Accounting

The financial statements of the College have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

Non-exchange transactions, in which the College receives (or gives) value without directly giving (or receiving) equal value in exchange includes state and federal appropriations, and certain grants and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

During the course of operations, numerous transactions occur between funds for goods provided and services rendered. For the financial statements, interfund receivables and payables have generally been eliminated. However, revenues and expenses from the College’s auxiliary enterprises are treated as though the College were dealing with private vendors. For all other funds, transactions that are reimbursements of expenses are recorded as reductions of expense.

Cash, Cash Equivalents and Investments

Cash and cash equivalents include cash on hand, bank demand deposits, and deposits with the Washington State Local Government Investment Pool (LGIP). Cash and cash equivalents that are held

with the intent to fund College operations are classified as current assets along with operating funds invested in the LGIP. The College records all cash, cash equivalents, and investments at fair value.

The College combines unrestricted cash operating funds from all departments into an internal investment pool, the income from which is allocated on a proportional basis after covering banking expenses. The internal investment pool is comprised of cash and cash equivalents.

Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. This also includes amounts due from federal, state and local governments or private sources as allowed under the terms of grants and contracts. Accounts receivable are shown net of estimated uncollectible amounts.

Inventories

Inventories, consisting primarily of merchandise for resale in the college bookstore are valued at cost using the first-in, first-out (FIFO) method.

Capital Assets

In accordance with state law, capital assets constructed with state funds are owned by the State of Washington. Property titles are shown accordingly. However, responsibility for managing the assets rests with the College. As a result, the assets are included in the financial statements because excluding them would have been misleading to the reader.

Land, buildings and equipment are recorded at cost, or if acquired by gift, at fair market value at the date of the gift. Capital additions, replacements and major renovations are capitalized. The value of assets constructed includes all material direct and indirect construction costs. Any interest costs incurred are capitalized during the period of construction. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. In accordance with the state capitalization policy, all land, intangible assets and software with a unit cost of \$1,000,000 or more, buildings and improvements with a unit cost of \$100,000 or more, library collections with a total cost of \$5,000 or more and all other assets with a unit cost of \$5,000 or more are capitalized.

Depreciation is computed using the straight line method over the estimated useful lives of the assets as defined by the State of Washington's Office of Financial Management. Useful lives are generally 3 to 7 years for equipment; 15 to 50 years for buildings and 20 to 50 years for infrastructure and land improvements.

In accordance with GASB Statement 42, the college reviews assets for impairment whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable. Impaired assets are reported at the lower of cost or fair value. At June 30, 2015, no assets had been written down.

Unearned Revenues

Unearned revenues occur when funds have been collected prior to the end of the fiscal year but are related to the subsequent fiscal year. The College has recorded the next summer and fall quarter tuition and fees as unearned revenues.

Tax Exemption

The College is a tax-exempt organization under the provisions of Section 115 (1) of the Internal Revenue Code and is exempt from federal income taxes on related income.

Net Pension Liability

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State of Washington Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) and additions to/deductions from PERS's and TRS's fiduciary net position have been determined on the same basis as they are reported by PERS and TRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources represent consumption of net position that is applicable to a future period. Deferred inflows of resources represent acquisition of net position that is applicable to a future period. Changes in net position liability not included in pension expense are reported as deferred outflows of resources or deferred inflows of resources. Employer contributions subsequent to the measurement date of the net pension liability are reported as deferred outflows of resources.

Net Position

The College's net position is classified as follows.

- *Net Investment in Capital Assets.* This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.
- *Restricted for Nonexpendable.* This consists of endowment and similar type funds for which donors or other outside sources have stipulated as a condition of the gift instrument that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income which may either be expended or added to the principle.
- *Restricted for Loans.* The loan funds are established for the explicit purpose of providing student support as prescribed by statute or granting authority.
- *Restricted for Expendable.* These include resources the College is legally or contractually obligated to spend in accordance with restrictions imposed by third parties.
- *Unrestricted.* These represent resources derived from student tuition and fees, and sales and services of educational departments and auxiliary enterprises.

Classification of Revenues and Expenses

The College has classified its revenues and expenses as either operating or non-operating revenues according to the following criteria:

Operating Revenues. This includes activities that have the characteristics of exchange transactions such as (1) student tuition and fees, net of waivers and scholarship discounts and allowances, (2) sales and services of auxiliary enterprises and (3) most federal, state and local grants and contracts that primarily support the operational/educational activities of the colleges.

Operating Expenses. Operating expenses include salaries, wages, fringe benefits, utilities, supplies and materials, purchased services, and depreciation.

Non-operating Revenues. This includes activities that have the characteristics of non-exchange transactions, such as gifts and contributions, state appropriations, investment income and Pell Grants received from the federal government. Pell grants are reported as non-operating revenue based on guidance from the Office of Financial Management in collaboration with the State Auditor's Office.

Non-operating Expenses. Non-operating expenses include state remittance related to the building fee and the innovation fee, along with interest incurred on the Certificate of Participation Loan.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statements of Revenues, Expenses and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, State or non-governmental programs are recorded as either operating or non-operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance. Discounts and allowances for the year ending June 30, 2015 are \$3,416,368.

State Appropriations

The state of Washington appropriates funds to the College on both an annual and biennial basis. These revenues are reported as non-operating revenues on the Statements of Revenues, Expenses, and Changes in Net Position, and recognized as such when the related expenses are incurred.

Building and Innovation Fee Remittance

Tuition collected includes amounts remitted to the Washington State Treasurer's office to be held and appropriated in future years. The Building Fee portion of tuition charged to students is an amount established by the Legislature and is subject to change annually. The fee provides funding for capital construction and projects on a system wide basis using a competitive biennial allocation process. The Building Fee is required to be remitted on the 35th day of each quarter. The Innovation Fee was established in order to fund the State Board of Community and Technical College's Strategic Technology Plan. The use of the fund is to implement new ERP software across the entire system. On a monthly basis, the College's remits the portion of tuition collected for the Building Fee and the Innovation Fee to the State Treasurer for allocation to SBCTC. These remittances are non-exchange transactions reported as an expense in the non-operating revenues and expenses section of the Statement of Revenues, Expenses and Changes in Net Position.

2. Cash and Investments

Cash and cash equivalents include bank demand deposits, petty cash held at the College and unit shares in the Local Government Investment Pool (LGIP). The LGIP is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission (17 CFR 270.2a-7). Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both the market and credit risk. The LGIP is an unrated investment pool.

As of June 30, 2015, the carrying amount of the College's cash and equivalents was \$7,049,937 as represented in the table below.

Cash and Cash Equivalents	June 30, 2015
Petty Cash and Change Funds	\$4,350
Bank Demand and Time Deposits	\$532,249
Local Government Investment Pool	\$6,513,338
Total Cash and Cash Equivalents	\$7,049,937

Custodial Credit Risks—Deposits

Custodial credit risk for bank demand deposits is the risk that in the event of a bank failure, the College's deposits may not be returned to it. The majority of the College's demand deposits are with U.S. Bank. All cash and equivalents, except for change funds and petty cash held by the College, are insured by the Federal Deposit Insurance Corporation (FDIC) or by collateral held by the Washington Public Deposit Protection Commission (PDPC).

3. Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. It also includes amounts due from federal, state and local governments or private sources in connection with reimbursements of allowable expenditures made according to sponsored agreements. At June 30, 2015, accounts receivable were as follows.

Accounts Receivable	Amount
Student Tuition and Fees	\$ 535,492
Due from the Federal Government	\$ 63,926
Due from Other State Agencies	\$ 1,754,165
Auxiliary Enterprises	\$ 48,722
Other	\$ 1,117,360
Subtotal	\$ 3,519,665
Less Allowance for Uncollectible Accounts	\$ 429,852
Accounts Receivable, net	\$ 3,089,813

4. Inventories

Inventories, stated at cost using FIFO, consisted of the following as of June 30, 2015.

Inventories	Amount
Merchandise Inventories	\$ 502,838
Inventories	\$ 502,838

5. Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2015 is presented as follows. The current year depreciation expense was \$3,624,704.

\$164,167 of interest cost was incurred and charged as expense during the Lacey Building One remodel in the fiscal year ended June 30, 2015.

For Capital Assets comparison - the FY 2014 Capital Assets has been restated to reflect a FY 2015 prior year reconciling adjustment.

<i>FY 2014 Capital Assets, net of depreciation</i>	<i>\$135,546,249</i>
<i>FY 2015 capital assets prior period adjustment</i>	<i>(4,900,194)</i>
<i>Adjusted FY 2014 Capital Assets, net of depreciation</i>	<i>\$130,646,055</i>

Capital Assets	Beginning Balance (adjusted)	Additions/ Transfers	Retirements / Adjustments	Ending Balance
Nondepreciable capital assets				
Land	\$ 9,524,796	\$ -	\$ -	\$ 9,524,796
Construction in progress	26,444,746	(16,792,511)	-	9,652,235
Total nondepreciable capital assets	35,969,542	(16,792,511)	0	19,177,031
Depreciable capital assets				
Buildings	110,810,012	25,231,481	(272,513)	135,768,980
Other improvements and infrastructure	5,974,758	1,157,997	168,185	7,300,940
Equipment	5,896,610	580,678	(46,474)	6,430,814
Library resources	2,280,022	11,590	-	2,291,612
Subtotal depreciable capital assets	124,961,402	26,981,746	(150,802)	151,792,346
Less accumulated depreciation				
Buildings	20,031,288	2,945,925	(21,359)	22,955,854
Other improvements and infrastructure	4,025,237	198,037	(323)	4,222,951
Equipment	4,187,949	410,878	(46,474)	4,552,353
Library resources	2,040,415	69,864	-	2,110,279
Total accumulated depreciation	30,284,889	3,624,704	(68,156)	33,841,437
Total depreciable capital assets	94,676,513	23,357,042	(82,646)	117,950,909
Capital assets, net of accumulated depreciation	\$130,646,055	\$ 6,564,531	\$ (82,646)	\$137,127,940

6. Deferred Outflows and Deferred Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of equity that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The category of deferred outflow of resources reported in statement of net position relates to pensions.

Deferred outflows on pensions are recorded when actual earnings on pension plan investments exceed projected earnings and are amortized to pension expense using a systematic and rational method over a closed five-year period. Deferred outflows on pensions also include the difference between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic, demographic, or other input factors; or changes in the state's proportionate share of net pension liability. These are amortized over the average expected remaining service lives of all employees that are provided with pensions through each pension plan. State contributions to pension plans made subsequent to the measurement date are also deferred and reduce net pension liability in the subsequent year.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of equity that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources reported by the College relate to pensions.

Deferred inflows on pensions are recorded when projected earnings on pension plan investments exceed actual earnings and are amortized to pension expense using a systematic and rational method over a closed five-year period. Deferred inflows on pensions also include the difference between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic, demographic, or other input factors; or changes in the state's proportionate share of net pension liability. These are amortized over the average expected remaining service lives of all employees that are provided with pensions through each pension plan.

The following represent the components of the College's deferred outflows and inflows of resources as reflected on the Statement of Net Position:

Deferred Outflows and Inflows by Pension Plan		
	Deferred Outflows of Resources	Deferred Inflows of Resources
PERS 1		
Difference between expected and actual earnings of pension plan investments		\$ 333,585
Changes in College's proportionate share of pension liabilities		
Contributions to pension plans after measurement date	\$ 238,208	
	\$ 238,208	\$ 333,585
	Deferred Outflows of Resources	Deferred Inflows of Resources
PERS 2/3		
Difference between expected and actual earnings of pension plan investments		\$ 1,295,882
Changes in College's proportionate share of pension liabilities	\$ 252,107	
Contributions to pension plans after measurement date	\$ 267,542	
	\$ 519,649	\$ 1,295,882
	Deferred Outflows of Resources	Deferred Inflows of Resources
TRS 1		
Difference between expected and actual earnings of pension plan investments		\$ 105,333
Changes in College's proportionate share of pension liabilities		
Contributions to pension plans after measurement date	\$ 50,759	
	\$ 50,759	\$ 105,333
	Deferred Outflows of Resources	Deferred Inflows of Resources
TRS 2/3		
Difference between expected and actual earnings of pension plan investments		\$ 107,607
Changes in College's proportionate share of pension liabilities	\$ 51,545	
Contributions to pension plans after measurement date	\$ 57,461	
	\$ 109,006	\$ 107,607

The \$613,970 reported in deferred outflows of resources represent contributions the College made subsequent to the measurement date and will be recognized as a reduction of the net pension liability for the year ended June 30, 2016.

Other amounts reported as deferred outflows and inflows of resources will be recognized in pension expense as follows:

Year ended June 30:	PERS 1	PERS 2/3	TRS 1	TRS 2/3	Total
2016	\$ 83,396	\$ 249,826	\$ 26,333	\$ 15,449	\$ 375,004
2017	\$ 83,396	\$ 249,826	\$ 26,333	\$ 15,449	\$ 375,004
2018	\$ 83,396	\$ 249,826	\$ 26,333	\$ 15,449	\$ 375,004
2019	\$ 83,397	\$ 294,297	\$ 26,334	\$ 15,449	\$ 419,477
2020				\$ (5,734)	\$ (5,734)
Total	\$ 333,585	\$ 1,043,775	\$ 105,333	\$ 56,062	\$ 1,538,755

7. Accounts Payable and Accrued Liabilities

At June 30, 2015, accrued liabilities are the following.

Accounts Payable and Accrued Liabilities	Amount
Amounts Owed to Employees	\$ 804,926
Accounts Payable	\$ 1,844,775
Amounts Held for Others and Retainage	\$ 621,359
Total	\$ 3,271,060

8. Unearned Revenue

Unearned revenue is comprised of receipts which have not yet met revenue recognition criteria, as follows:

Unearned Revenue	Amount
Summer & Fall Quarter Tuition & Fees	\$ 1,264,136
Total Unearned Revenue	\$ 1,264,136

9. Risk Management

The College, in accordance with state policy, pays unemployment claims on a pay-as-you-go basis. Payments made for claims from July 1, 2014 through June 30, 2015, were \$74,202.

The College purchases commercial property insurance through the master property program administered by the Department of Enterprise Services for buildings that were acquired with COP proceeds. The policy has a deductible of \$250,000 per occurrence and the policy limit is \$100,000,000 per occurrence. The college has had no claims in excess of the coverage amount within the past three years. The College assumes its potential property losses for most other buildings and contents. The College participates in a State of Washington risk management self-insurance program, which covers its exposure to tort, general damage and vehicle claims. Premiums paid to the State are based on actuarially determined projections and include allowances for payments of both outstanding and current liabilities. Coverage is provided up to \$10,000,000 for each claim with no deductible. The college has had no claims in excess of the coverage amount within the past three years.

10. Compensated Absences

At termination of employment, employees may receive cash payments for all accumulated vacation and compensatory time. Depending upon employment type, employees who retire may get 25% of the value of their accumulated sick leave received either as a cash payment, or credited to a Voluntary Employees' Beneficiary Association (VEBA) account, which can be used for future medical expenses and insurance purposes. The amounts of unpaid vacation and compensatory time accumulated by College employees are accrued when incurred. The sick leave liability is recorded as an actuarial estimate of one-fourth the total balance on the payroll records. The accrued vacation leave totaled \$885,938, and accrued sick leave totaled \$1,219,072 at June 30, 2015.

Accrued annual and sick leave are categorized as non-current liabilities

11. Leases Payable

The College has leases for office equipment. These leases are classified as operating leases. As of June 30, 2015, the minimum lease payments under operating leases consist of the following.

Leases Payable	
Fiscal year	Operating Leases
2016	63,972
2017	62,790
2018	56,851
2019	23,465
2020	529
2021-25	0
Total minimum lease payments	\$ 207,607

12. Notes Payable

In June 1999, the College obtained financing in order to remodel Building 27, the Student Union Building through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of \$4,620,000. Students assessed themselves, on a quarterly basis, a mandatory fee to service the debt starting in 1997. The College Bookstore and International Education also committed to an annual obligation to service the debt. The interest rate charged is approximately 3.137%

Student fees and annual obligation transfers from the College's Bookstore related to the Student Union Building COP are accounted for in a dedicated fund, which is used to pay principal and interest, not coming out of the general operating budget.

In August 2014, the College obtained financing to remodel Lacey Campus Building 1 through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of \$4,700,000. The interest rate charged is approximately 3.181%

The College's debt service requirements for these note agreements for the next five years and thereafter are as follows:

13. Annual Debt Service Requirements

Future debt service requirements at June 30, 2015 are as follows.

Annual Debt Service Requirements			
Certificates of Participation			
Fiscal year	Principal	Interest	Total
2016	\$ 430,000	\$ 247,800	\$ 677,800
2017	445,000	229,050	674,050
2018	470,000	209,650	679,650
2019	495,000	189,150	684,150
2020	510,000	167,550	677,550
2021-25	1,085,000	623,750	1,708,750
2026-2030	1,360,000	355,100	1,715,100
2031-2035	1,260,000	111,625	1,371,625
Total	\$ 6,055,000	\$ 2,133,675	\$ 8,188,675

14. Schedule of Long Term Liabilities

	Balance outstanding 6/30/14	Additions	Reductions	Balance outstanding 6/30/15	Current portion
Certificates of Participation	\$ 1,765,000	\$ 4,700,000	\$ (410,000)	\$ 6,055,000	\$ 430,000
Net pension obligation	5,904,699	1,050,601	(2,417,470)	\$ 4,537,830	0
Compensated absences	2,356,167	595,902	(847,059)	\$ 2,105,010	0
Total	\$ 10,025,866	\$ 6,346,503	\$ (3,674,529)	\$ 12,697,840	\$ 430,000

15. Pension Plans

The College offers three contributory pension plans. The Washington State Public Employees Retirement System (PERS) and Teachers Retirement System (TRS) plans are cost sharing multiple employer defined benefit pension plans administered by the State of Washington Department of Retirement Services. The State Board Retirement Plan (SBRP) is a multiple employer defined contribution plan for the faculty and exempt administrative and professional staff of the state's public community and technical colleges. The plan includes supplemental payment, when required. The plan is administered by the State Board for Community and Technical Colleges (SBCTC).

For FY2015, the payroll for the College's employees was \$5,718,742 for PERS, \$1,021,805 for TRS, and \$11,348,976 for SBRP. Total covered payroll was \$18,089,523.

South Puget Sound Community College implemented Government Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions for the fiscal year 2015 financial reporting. The College's defined benefit pension plans were created by statutes rather than through trust documents. With the exception of the supplemental defined benefit component of the higher education retirement plan, they are administered in a way equivalent to pension trust arrangements as defined by the GASB.

In accordance with Statement No. 68, the College has elected to use the prior fiscal year end, 6/30/14, as the measurement date for reporting net pension liabilities to align with the State CAFR.

Basis of Accounting

Pension plans administered by the state are accounted for using the accrual basis of accounting. Under the accrual basis of accounting, employee and employer contributions are recognized in the period in which employee services are performed; investment gains and losses are recognized as incurred; and benefits and refunds are recognized when due and payable in accordance with the terms of the applicable plan. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all plans and additions to/deductions from all plan fiduciary net position have been determined in all material respects on the same basis as they are reported by the plans.

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB Statement No. 68 for South Puget Sound Community College, for fiscal year 2014:

Aggregate Pension Amounts - All Plans

Pension liabilities	\$4,537,830
Deferred outflows of resources related to pensions	\$ 917,622
Deferred inflows of resources related to pensions	\$1,842,407
Pension expense/expenditures	\$ 746,950

PERS and TRS

Plan Descriptions. PERS Plan 1 provides retirement and disability benefits and minimum benefit increases to eligible nonacademic plan members hired prior to October 1, 1977. PERS Plans 2 and 3 provide retirement and disability benefits and a cost-of-living adjustment to eligible nonacademic plan members hired on or after October 1, 1977. Retirement benefits are vested after five years of eligible service. PERS Plan 3 has a defined contribution component that members may elect to self-direct as established by the Employee Retirement Benefits Board. PERS 3 defined benefit plan benefits are vested after an employee completes five years of eligible service.

TRS Plan 3 provides retirement benefits to certain eligible faculty hired on or after October 1, 1977. The plan includes both a defined benefit portion and a defined contribution portion. The defined benefit portion is funded by employer contributions only. Benefits are vested after an employee completes five or ten years of eligible service, depending on the employee's age and service credit, and include an annual cost-of living adjustment. The defined contribution component is fully funded by employee contributions and investment performance.

The college also has 4 faculty members with pre-existing eligibility who continue to participate in TRS 1 or 2.

The authority to establish and amend benefit provisions resides with the legislature. PERS and TRS issue publicly available financial reports that include financial statements and required supplementary information. The report may be obtained by writing to the Department of Retirement Systems, PO Box 48380, Olympia, Washington 98504-8380 or online at <http://www.drs.wa.gov/administration>.

Funding Policy. Each biennium, the state Pension Funding Council adopts PERS and TRS Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for PERS and TRS Plans 1 are established by statute.

By statute, PERS 3 employees may select among six contribution rate options, ranging from 5 to 15 percent.

The required contribution rates expressed as a percentage of current year covered payroll are shown in the table below. The College and the employees made 100% of required contributions.

Contribution Rates and Required Contributions. The College's contribution rates and required contributions for the above retirement plans for the years ending June 30, 2015, 2014, and 2013 are as follows.

Contribution Rates at June 30						
	FY 2013		FY 2014		FY 2015	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	6.00%	7.21%	6.00%	9.21%	6.00%	9.21%
Plan 2	4.64%	7.21%	4.92%	9.21%	4.92%	9.21%
Plan 3	5 - 15%	7.21%	5 - 15%	9.21%	5 - 15%	9.21%
TRS						
Plan 1	6.00%	8.05%	6.00%	10.39%	6.00%	10.39%
Plan 2	4.69%	8.05%	4.96%	10.39%	4.96%	10.39%
Plan 3	5-15%	8.05%	5-15%	10.39%	5-15%	10.39%

Required Contributions						
	FY2013		FY2014		FY2015	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	\$20,032.96	\$24,057.40	\$17,735.39	\$27,214.93	\$15,537.66	\$23,839.49
Plan 2	\$187,130.30	\$289,989.73	\$208,975.07	\$391,419.89	\$223,583.09	\$417,501.98
Plan 3	\$44,156.27	\$52,219.59	\$60,537.12	\$89,175.72	\$56,766.61	\$85,354.64
TRS						
Plan 1	\$10,591.68	\$14,209.08	\$8,162.96	\$13,640.17	\$3,104.15	\$5,375.28
Plan 2	\$2,833.47	\$4,863.07	\$4,531.48	\$9,360.99	\$5,079.00	\$10,639.27
Plan 3	\$24,173.53	\$25,603.85	\$48,022.85	\$54,812.59	\$76,473.03	\$90,151.05

Investments

The Washington State Investment Board (WSIB) has been authorized by statute as having investment management responsibility for the pension funds. The WSIB manages retirement fund assets to maximize return at a prudent level of risk.

Retirement funds are invested in the Commingled Trust Fund (CTF). Established on July 1, 1992, the CTF is a diversified pool of investments that invests in fixed income, public equity, private equity, real estate, and tangible assets. Investment decisions are made within the framework of a Strategic Asset Allocation Policy and a series of written WSIB adopted investment policies for the various asset classes in which the WSIB invests.

For the year ended June 30, 2014, the annual money-weighted rate of return on the pension investments, net of pension plan expenses are as follows:

<u>Pension Plan</u>	<u>Rate of Return</u>
PERS Plan 1	16.98%
PERS Plan 2/3	17.06%
TRS Plan 1	16.97%
TRS Plan 2/3	17.07%

These money-weighted rates of return express investment performance, net of pension plan investment expense, and reflects both the size and timing of cash flows.

The PERS and TRS target asset allocation and long-term expected real rate of return as of June 30, 2014, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Fixed Income	20%	0.80%
Tangible Assets	5%	4.10%
Real Estate	15%	5.30%
Global Equity	37%	6.05%
Private Equity	23%	9.05%
Total	100%	

The inflation component used to create the above table is 2.70 percent and represents WSIB's most recent long-term estimate of broad economic inflation.

Pension Expense

Pension expense is included as part of "Employee Benefits" expense in the statement of revenues, expenses and changes in net position. The table below shows the components of each pension plans expense as it affected employee benefits:

	<u>PERS 1</u>	<u>PERS 2/3</u>	<u>TRS 1</u>	<u>TRS 2/3</u>	<u>Total</u>
Actuarially determined pension expense	\$144,628	\$196,169	\$ 27,513	\$ 31,488	\$399,798
Amortization of change in proportionate liability	\$240,216	\$ 72,030	\$ 23,701	\$ 11,205	\$347,152
Total Pension Expense	\$384,844	\$268,199	\$ 51,214	\$ 42,693	\$746,950

Changes in Proportionate Shares of Pension Liabilities

The changes to the College's proportionate share of pension liabilities from 2013 to 2014 for each retirement plan are listed below:

	<u>2013</u>	<u>2014</u>
PERS 1	0.048846%	0.052957%
PER 2/3	0.052889%	0.060480%
TRS 1	0.019695%	0.020366%

	1% Decrease	Current Discount Rate	1% Increase
Pension Plan	(6.50%)	(7.50%)	(8.50%)
PERS Plan 1	\$ 3,288,243	\$ 2,667,734	\$ 2,135,087
Pers Plan 2/3	\$ 5,099,389	\$ 1,222,519	\$ (1,738,688)
TRS Plan 1	\$ 773,002	\$ 600,686	\$ 452,775
TRS Plan 2/3	\$ 377,937	\$ 43,481	\$ (205,120)

State Board Retirement Plan

Plan Description. Faculty and exempt administrative and professional staff are eligible to participate in SBRP. The Teacher’s Insurance and Annuity Association (TIAA) and the College Retirement Equities Fund (CREF) are the companion organizations through which individual retirement annuities are purchased. Employees have at all times a 100% vested interest in their accumulations.

TIAA-CREF benefits are payable upon termination at the member’s option unless the participant is re-employed in another institution which participates in TIAA-CREF.

The Plan has a supplemental payment component that guarantees a minimum retirement benefit goal based upon a one-time calculation at each employee’s retirement date. The SBCTC makes direct payments on behalf of the College to qualifying retirees when the retirement benefit provided by TIAA-CREF does not meet the benefit goal. Employees are eligible for a non-reduced supplemental payment after the age of 65 with ten years of full-time service.

The minimum retirement benefit goal is 2% of the average annual salary for each year of full-time service up to a maximum of 25 years. However, if the participant does not elect to make the 10% TIAA-CREF contribution after age 49, the benefit goal is 1.5% for each year of full-time service for those years the lower contribution rate is selected.

The State Board for Community and Technical Colleges is authorized to amend benefit provisions under RCW 28B.10.400. In 2011, the plan was amended to eliminate the supplemental benefit provisions for all employees hired after June 30, 2011.

Contributions. Contribution rates for the SBRP (TIAA-CREF), which are based upon age, are 5%, 7.5% or 10% of salary and are matched by the College. Employee and employer contributions for the year ended June 30, 2015 were \$983,940 & \$983,747 respectively.

The SBRP supplemental pension benefits are unfunded. For the year ended June 30, 2015, supplemental benefits were paid by the SBCTC on behalf of the college system in the amount of \$583,625. In 2012, legislation (RCW 28B.10.423) was passed requiring colleges to pay into a Supplemental Benefit Fund managed by the State Investment Board, for the purpose of funding future benefit obligations. During FY 2014, the College paid into this fund at a rate of 0.5% of covered salaries, totaling \$56,745. As of June 30, 2015, the Community and Technical College system accounted for \$7,729,471 of the fund balance.

Washington State Deferred Compensation Program

The College, through the state of Washington, offers its employees a deferred compensation plan created under Internal Revenue Code Section 457. The plan, available to all State employees, permits individuals to defer a portion of their salary until future years. The state of Washington administers the plan on behalf of the College’s employees. The deferred compensation is not available to employees until termination, retirement or unforeseeable financial emergency. The College does not have access to the funds.

Other Post-Employment Benefits

Health care and life insurance programs for employees of the state of Washington are administered by the Washington State Health Care Authority (HCA). The HCA calculates the premium amounts each year that are sufficient to fund the statewide health and life insurance programs on a pay-as-you-go basis. These costs are passed through to individual state agencies based upon active employee headcount; the agencies pay the premiums for active employees to the HCA. The agencies may also charge employees for certain higher cost options elected by the employee.

State of Washington retirees may elect coverage through state health and life insurance plans, for which they pay less than the full cost of the benefits, based on their age and other demographic factors. The health care premiums for active employees, which are paid by the agency during the employees' working careers, subsidize the "underpayments" of retirees. An additional factor in the Other Post-Employment Benefits (OPEB) obligation is a payment that is required by the State Legislature to reduce the premiums for retirees covered by Medicare (an "explicit" subsidy). This explicit subsidy is also passed through to state agencies via active employee rates charged to the agency. There is no formal state or College plan that underlies the subsidy of retiree health and life insurance.

The actuary allocated the statewide disclosure information to the community and technical college system level. The SBCTC further allocated these amounts among the colleges. The College's share of the GASB 45 actuarially accrued liability (AAL) is \$13,020,979, with an annual required contribution (ARC) of \$1,272,321. The ARC represents the amortization of the liability for FY 2015 plus the current expense for active employees, which is reduced by the current contributions of approximately \$159,960. The College's net OPEB obligation at June 30, 2015 was approximately \$1,885,238. This amount is not included in the College's financial statements.

The College paid \$2,863,270 for healthcare expenses in 2015, which included its pay-as-you-go portion of the OPEB liability.

16. Operating Expenses by Program

In the Statement of Revenues, Expenses and Changes in Net Position, operating expenses are displayed by natural classifications, such as salaries, benefits, and supplies. The table below summarizes operating expenses by program or function such as instruction, academic support, and student services. The following table lists operating expenses by program for the year ending June 30, 2015.

Expenses by Functional Classification	
Instruction	\$ 16,843,224
Academic Support Services	2,851,915
Student Services	4,593,489
Institutional Support	6,144,830
Operations and Maintenance of Plant	9,908,476
Auxiliary enterprises	4,025,544
Student Financial Aid	7,156,800
Compensated Absences	(250,744)
Pension	132,979
Depreciation	3,624,704
Total operating expenses	\$ 55,031,217

17. Commitments and Contingencies

There is a class action lawsuit, *Moore v. HCA*, filed against the State of Washington on behalf of former part-time and non-permanent employees alleging improper denial of healthcare benefits. Although the College has not been named as a defendant in the lawsuit, some of the class members are current or former employees of the College. Potentially, the state could assess the College with a material share of any amount paid in the event of a settlement or judgment. As of the end of fiscal year 2015, the parties have reached a settlement agreement with the plaintiffs to settle all matters relating to this and related lawsuits. Final settlement is contingent on a) funding of the settlement by the legislature and b) final approval by the trial court if funding is provided. As such, the amount of loss cannot be reasonably estimated at this time.

Additionally, the College is engaged in various legal actions in the ordinary course of business. Management does not believe the ultimate outcome of these actions will have a material adverse effect on the financial statement.

The College has commitments of \$675,490 for various capital improvement projects that include construction and completion of new buildings and renovations of existing buildings.

18. Subsequent Events

On March 29th, 2016, the legislature passed the supplemental budget which included an appropriation to fund the settlement for the *Moore v. HCA* lawsuit. SBCTC's portion of this obligation is \$34 million of which \$21 million is funded by the legislature and the remaining \$13 million will be allocated amount 34 colleges in the system. The College's share of this liability is \$281,802 and is recorded in the financial statements under Current Liabilities.

Required Supplementary Information

Pension Plan Information

Cost Sharing Employer Plans

Schedules of South Puget Sound Community College's Proportionate Share of the Net Pension Liability

Schedule of South Puget Sound Community College's Share Public Employees' Retirement System (PERS) Plan 1	
Measurement Date of June 30	
	2014
College's proportion of the net pension liability	0.052957%
College proportionate share of the net pension liability	\$ 2,667,734
College covered-employee payroll	\$ 295,593
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	902.50%
Plan's fiduciary net position as a percentage of the total pension liability	61.19%

Notes: These schedules will be built prospectively until they contain 10 years of data.

Cost Sharing Employer Plans

Schedules of South Puget Sound Community College’s Proportionate Share of the Net Pension Liability

Schedule of South Puget Sound Community College's Share Public Employees’ Retirement System (PERS) Plan 2/3	
Measurement Date of June 30	
2014	
College’s proportion of the net pension liability	0.060480%
College proportionate share of the net pension liability	\$ 1,222,519
College covered-employee payroll	\$ 5,219,957
College’s proportionate share of the net pension liability as a percentage of its covered-employee payroll	23.42%
Plan’s fiduciary net position as a percentage of the total pension liability	93.29%

Notes: These schedules will be built prospectively until they contain 10 years of data.

Cost Sharing Employer Plans

Schedules of South Puget Sound Community College’s Proportionate Share of the Net Pension Liability

Schedule of South Puget Sound Community College's Share Teachers' Retirement System (TRS) Plan 1	
Measurement Date of June 30	
2014	
College’s proportion of the net pension liability	0.020366%
College proportionate share of the net pension liability	\$ 600,686
College covered-employee payroll	\$ 136,048
College’s proportionate share of the net pension liability as a percentage of its covered-employee payroll	441.53%
Plan’s fiduciary net position as a percentage of the total pension liability	68.77%

Notes: These schedules will be built prospectively until they contain 10 years of data.

Cost Sharing Employer Plans

Schedules of South Puget Sound Community College’s Proportionate Share of the Net Pension Liability

Schedule of South Puget Sound Community College's Share Teachers' Retirement System (TRS) Plan 2/3 Measurement Date of June 30	
2014	
College’s proportion of the net pension liability	0.013462%
College proportionate share of the net pension liability	\$ 43,481
College covered-employee payroll	\$ 623,545
College’s proportionate share of the net pension liability as a percentage of its covered-employee payroll	6.97%
Plan’s fiduciary net position as a percentage of the total pension liability	96.81%

Notes: These schedules will be built prospectively until they contain 10 years of data.

Pension Plan Information

Cost Sharing Employer Plans
Schedules of Contributions

Schedule of Contributions Public Employees' Retirement System (PERS) Plan 1 Fiscal Year Ended June 30						
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered-employee payroll	
2014	\$ 27,215	\$ 27,215	\$ -	\$ 295,593	9.21%	
2015	\$ 23,839	\$ 23,839	\$ -	\$ 258,844	9.21%	
2016						
2017						
2018						
2019						
2020						
2021						
2022						
2023						

Notes: These schedules will be built prospectively until they contain 10 years of data.

Cost Sharing Employer Plans
Schedules of Contributions

Schedule of Contributions Public Employees' Retirement System (PERS) Plan 2/3 Fiscal Year Ended June 30						
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered-employee payroll	
2014	\$ 480,595	\$ 480,595	\$ -	\$ 5,219,957	9.21%	
2015	\$ 502,857	\$ 502,857	\$ -	\$ 5,459,898	9.21%	
2016						
2017						
2018						
2019						
2020						
2021						
2022						
2023						

Notes: These schedules will be built prospectively until they contain 10 years of data.

Cost Sharing Employer Plans
Schedules of Contributions

Schedule of Contributions Teachers' Retirement System (TRS) Plan 1 Fiscal Year Ended June 30							
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered-employee payroll		
2014	\$ 13,640	\$ 13,640	\$ -	\$ 136,048	10.03%		
2015	\$ 5,375	\$ 5,375	\$ -	\$ 51,735	10.39%		
2016							
2017							
2018							
2019							
2020							
2021							
2022							
2023							

Notes: These schedules will be built prospectively until they contain 10 years of data.

Cost Sharing Employer Plans
Schedules of Contributions

Schedule of Contributions Teachers' Retirement System (TRS) Plan 2/3 Fiscal Year Ended June 30						
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered-employee payroll	
2014	\$ 64,174	\$ 64,174	\$ -	\$ 623,545	10.29%	
2015	\$ 100,790	\$ 100,790	\$ -	\$ 970,070	10.39%	
2016						
2017						
2018						
2019						
2020						
2021						
2022						
2023						

Notes: These schedules will be built prospectively until they contain 10 years of data.